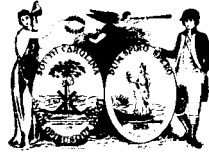


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

October 22, 2002

Mr. Douglas R. Ruth, Director of Reimbursement
Life Care Centers of America
3570 Keith Street, NW
Cleveland, Tennessee 37320

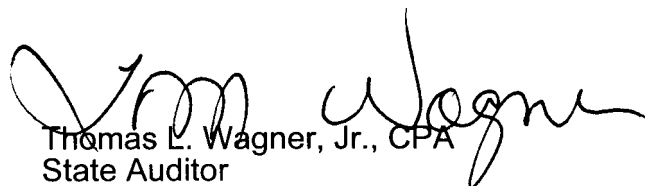
Re: AC# 3-LCC-J9 – Life Care Center of Columbia

Dear Mr. Ruth:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1998 through September 30, 1999. That report was used to set the rate covering the contract period beginning October 1, 2000.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sag

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph P. Hayes

LIFE CARE CENTER OF COLUMBIA

COLUMBIA, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2000
AC# 3-LCC-J9**

AGREED-UPON PROCEDURES REPORT

ON CONTRACT

FOR

PURCHASE OF NURSING CARE SERVICES

WITH

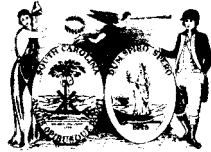
STATE OF SOUTH CAROLINA

DEPARTMENT OF HEALTH AND HUMAN SERVICES

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

July 3, 2002

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Life Care Center of Columbia, for the contract period beginning October 1, 2000, and for the twelve month cost report period ended September 30, 1999, as set forth in the accompanying schedules. The management of Life Care Center of Columbia is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

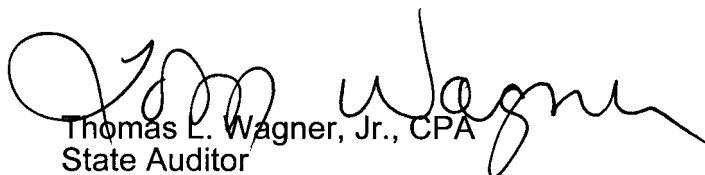
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Life Care Center of Columbia, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Life Care Center of Columbia dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
July 3, 2002

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.


Thomas L. Wagner, Jr., CPA
State Auditor

LIFE CARE CENTER OF COLUMBIA

Computation of Rate Change
For the Contract Period
Beginning October 1, 2000
AC# 3-LCC-J9

10/01/00-
09/30/01

Interim Reimbursement Rate (1)	\$105.33
Adjusted Reimbursement Rate	<u>102.45</u>
Decrease in Reimbursement Rate	\$ <u><u>2.88</u></u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated January 25, 2002

LIFE CARE CENTER OF COLUMBIA
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 2000 Through September 30, 2001
AC# 3-LCC-J9

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$50.42	\$54.01	
Dietary		11.09	10.12	
Laundry/Housekeeping/Maintenance		<u>8.57</u>	<u>8.88</u>	
Subtotal	<u>\$2.93</u>	70.08	73.01	\$ 70.08
Administration & Medical Records	<u>\$ -</u>	<u>13.18</u>	<u>10.55</u>	<u>10.55</u>
Subtotal		83.26	<u>\$83.56</u>	80.63
<u>Costs Not Subject to Standards:</u>				
Utilities		3.34		3.34
Special Services		.05		.05
Medical Supplies & Oxygen		1.74		1.74
Taxes and Insurance		2.10		2.10
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$90.49</u>		87.86
Inflation Factor (3.20%)				2.81
Cost of Capital				8.26
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				2.93
Effect of \$1.75 Cap on Cost/Profit Incentives				(1.18)
Nurse Aide Staffing Add-On 10/01/99				.83
Nurse Aide Staffing Add-On 10/01/00				<u>.94</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$102.45</u>

LIFE CARE CENTER OF COLUMBIA
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1999
AC# 3-LCC-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Debit</u>	Adjustments	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$2,510,905	\$ 19,781 (7) 31,503 (11)	\$ 18 (1) 16,856 (6) 4,403 (7) 36,525 (12) 30,981 (12)	\$2,473,406	
Dietary	546,422	113,020 (11)	2,015 (7) 113,542 (12)	543,885	
Laundry	103,562	493 (7) 21,420 (11)	21,670 (12)	103,805	
Housekeeping	200,738	57,783 (11)	1,535 (7) 56,416 (12)	200,570	
Maintenance	126,909	37,124 (11)	11,222 (3) 3,805 (7) 32,881 (12)	116,125	
Administration & Medical Records	707,910	1,951 (4) 16,856 (6) 5,112 (7) 112,615 (11) 13,252 (11)	39,374 (5) 49,286 (7) 447 (8) 61,965 (12) 17,485 (12) 42,757 (13)	646,382	
Utilities	154,666	11,222 (3) 44,172 (11)	46,062 (12)	163,998	
Special Services	2,684	225 (8)	225 (7)	2,684	
Medical Supplies & Oxygen	96,737	-	7,683 (4) 3,222 (8) 237 (12)	85,595	
Taxes and Insurance	104,476	26,871 (11)	28,321 (12)	103,026	
Legal Fees	-	-	-	-	

LIFE CARE CENTER OF COLUMBIA
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1999
AC# 3-LCC-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	490,560	54,956 (9) 45,319 (11) 2,968 (14)	160,517 (1) 10,525 (2) 2,400 (10) 15,285 (12)	405,076
Subtotal	5,045,569	616,643	817,660	4,844,552
Ancillary	179,052	3,634 (4) 198 (8)	-	182,884
Non-Allowable	1,738,729	160,535 (1) 10,525 (2) 2,098 (4) 39,374 (5) 35,883 (7) 3,246 (8) 461,370 (12) 42,757 (13)	54,956 (9) 503,079 (11) 2,968 (14)	1,933,514
Total Operating Expenses	<u>\$6,963,350</u>	<u>\$1,376,263</u>	<u>\$1,378,663</u>	<u>\$6,960,950</u>
Total Patient Days	<u>49,056</u>	<u>-</u>	<u>-</u>	<u>49,056</u>
Total Beds	<u>140</u>			

LIFE CARE CENTER OF COLUMBIA
Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-LCC-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$ 843,688	
	Other Equity	4,652,987	
	Nonallowable	160,535	
	Fixed Assets		\$5,496,675
	Restorative		18
	Cost of Capital		160,517
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Other Equity	46,021	
	Nonallowable	10,525	
	Loan Cost		46,021
	Cost of Capital		10,525
	To adjust loan cost and related amortization HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Utilities	11,222	
	Maintenance		11,222
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
4	Medical Records	1,951	
	Ancillary	3,634	
	Nonallowable	2,098	
	Medical Supplies		7,683
	To reclassify expense to the proper cost center and disallow expense due to lack of documentation HIM-15-1, Section 2304 DH&HS Expense Crosswalk		
5	Nonallowable	39,374	
	Administration		39,374
	To remove cost not related to patient care HIM-15-1, Sections 2102.3 and 2304		

LIFE CARE CENTER OF COLUMBIA
Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-LCC-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Medical Records Nursing	16,856	16,856
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
7	Nursing Laundry Medical Records Nonallowable	19,781 493 5,112 35,883	
	Restorative Dietary Housekeeping Maintenance Administration Special Services		4,403 2,015 1,535 3,805 49,286 225
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
8	Special Services Ancillary Nonallowable	225 198 3,246	
	Administration Medical Supplies		447 3,222
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
9	Cost of Capital Nonallowable	54,956	54,956
	To adjust depreciation and amortization expense to comply with capital cost policy State Plan, Attachment 4.19D		

LIFE CARE CENTER OF COLUMBIA
Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-LCC-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Construction in Progress Cost of Capital	2,400	2,400
	To properly offset income against related expense HIM-15-1, Sections 132 and 2304		
11	Restorative	31,503	
	Dietary	113,020	
	Laundry	21,420	
	Housekeeping	57,783	
	Maintenance	37,124	
	Administration	112,615	
	Medical Records	13,252	
	Utilities	44,172	
	Taxes and Insurance	26,871	
	Cost of Capital	45,319	
	Nonallowable		503,079
	To reverse DH&HS adjustment to remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
12	Nonallowable	461,370	
	Nursing		36,525
	Restorative		30,981
	Dietary		113,542
	Laundry		21,670
	Housekeeping		56,416
	Maintenance		32,881
	Administration		61,965
	Medical Records		17,485
	Utilities		46,062
	Taxes and Insurance		28,321
	Medical Supplies		237
	Cost of Capital		15,285
	To remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		

LIFE CARE CENTER OF COLUMBIA
Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-LCC-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
13	Nonallowable Administration	42,757	42,757
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
14	Cost of Capital Nonallowable	2,968	2,968
	To adjust capital return State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$6,921,359</u>	<u>\$6,921,359</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

LIFE CARE CENTER OF COLUMBIA
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1999
AC# 3-LCC-J9

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.3156</u>	<u>2.3156</u>	
Deemed Asset Value (Per Bed)	36,165	36,165	
Number of Beds	<u>132</u>	<u>8</u>	
Deemed Asset Value	4,773,780	289,320	
Improvements Since 1981	165,460	3,604	
Accumulated Depreciation at 9/30/99	<u>(760,182)</u>	<u>(14,278)</u>	
Deemed Depreciated Value	4,179,058	278,646	
Market Rate of Return	<u>.060</u>	<u>.060</u>	
Total Annual Return	250,743	16,719	
Return Applicable to Non-Reimbursable Cost Centers	(9,215)	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>9,853</u>	<u>-</u>	
Allowable Annual Return	251,381	16,719	
Depreciation Expense	150,059	10,918	
Amortization Expense	-	411	
Capital Related Income Offsets	(2,263)	(6,864)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(15,285)</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	383,892	21,184	\$405,076
Total Patient Days (Minimum 96% Occupancy)	<u>46,253</u>	<u>2,803</u>	<u>49,056</u>
Cost of Capital Per Diem	\$ <u>8.30</u>	\$ <u>7.56</u>	\$ <u>8.26</u>

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